

Using a Decision Matrix To Analyze Privatization Options

Viljandi, Estonia

Background

The Estonian national government decided that starting September 1, 1995, all municipal enterprises (municipally owned businesses) would be phased out over a two year period. Consequently, the Vice Mayor of the City of Viljandi (population 22,500) wanted to develop a strategy to determine how to privatize the city's nine municipal enterprises. Because municipal enterprises had been transferred to local governments from the central government, the central government would receive 50 percent of all proceeds from the sale or privatization of municipal enterprises. Viljandi needed to maximize city revenue while considering other criteria in making privatization decisions, such as minimizing the negative impact on the community, ensuring continuity and quality of service delivery, eliminating inconsistencies and inefficiencies, and determining the true cost of service delivery.

Innovation

Based on those criteria, among others, the City of Viljandi developed a decision matrix to analyze its municipal enterprises and make recommendations for the disposition of each. The fixed assets of the enterprises were considered along with financial information, including balance sheets, cash flow statements, fiscal analysis, and true costs of providing services. The options for disposition of municipal enterprises were then considered: retention as a city government department; creation of a joint stock company with various equity positions for the city; sale of city assets after which the city leases back the assets and continues providing the services; and retention of the assets by the city and contracting out of service delivery. The results of this matrix analysis were presented to the City Council of Viljandi, which adopted the disposition plan in the fall of 1995. The implementation costs of this decision-making process were minimal, as they consisted solely of staff time.

Results

As a result of implementing the new decision-making process, Viljandi's municipal hotel was sold for approximately \$254,000 and the municipal movie theater was leased to another enterprise for \$850 a month for a 10 year period with the understanding that the building would remain a movie theater. The other enterprises, including the heating utility and a firm that owns and manages apartment buildings and provides plumbing services, are currently undergoing reorganization to improve the level of management and create smaller divisions so that they can be privatized by the September 1997 deadline.

The matrix analysis process gave city officials a clearer understanding of the costs of providing various services as well as a comprehensive picture of all the variables to be considered when determining which enterprises to retain or sell. This made the decision-making process for disposing of municipally-owned firms more transparent and rational. It also demonstrated the usefulness of an objective decision matrix process in making successful public policy decisions and contributed data that can be used to improve the efficiency, cost effectiveness, and quality of government services.

The decision matrix practice is being disseminated to all Estonian municipalities. The practice is relevant to all local governments that are decentralizing government services, transferring authority to local government units, and improving the efficiency and effectiveness of public services.

Summary

The City of Viljandi used a decision matrix to assist in determining how to privatize its municipal enterprises. The analysis process demonstrated the usefulness of an objective decision matrix process in making successful public policy decisions and contributed data that can be used to improve the efficiency, cost effectiveness, and quality of government services.

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